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May 21, 1997

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MAY 21 1997

BY HAND DELIVERY

Mr. William F. Caton
Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

Re: Notice of Ex Parte Communication in CC Docket 96-98

Dear Mr. Caton:

Today, on behalf of WorldCom, Inc., I provided copies of the attached testimony of Joseph Gillan, filed in Illinois Commerce Commission Docket No. 96-0404 on May 2, 1997, to Richard Metzger, Deputy Bureau Chief; Paul Gallant, Legal Counsel to the Bureau Chief; and Kalpak Gude, all of the Common Carrier Bureau, and to John Nakahata, chief of the Competition Division of the General Counsel's Office. This testimony is relevant to certain issues in the referenced docket.

I have hereby submitted two copies of this notice and the enclosures for the referenced proceeding to the Secretary, as required by the Commission's rules. Please return a date-stamped copy of the enclosed (copy provided).

Please contact the undersigned if you have any questions.

Respectfully submitted,

Linda L Oliver

Linda L. Oliver
Counsel for WorldCom, Inc.

Enclosure

cc: Richard Metzger
Paul Gallant
Kalpak Gude
John Nakahata

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SURREBUTTAL TESTIMONY

OF

JOSEPH GILLAN

ON BEHALF OF

WORLDCOM, INC

DOCKET NOS. 96-0486/0569 (Consol.)

MAY 2, 1997

PUBLIC VERSION

Surrebuttal Testimony of Joseph Gillan
on Behalf of WorldCom, Inc.

Introduction

Q. Please state your name and business address.

A. My name is Joseph Gillan. My business address is PO Box 541038, Orlando, Florida 32854. I previously filed direct and rebuttal testimony in these proceedings.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to address five areas addressed in rebuttal testimony filed by Ameritech (O'Brien, Palmer, Gephardt, and Aron), Staff (Yow and Price), and TCG (Montgomery).

First, I respond to Mr. O'Brien's rebuttal testimony that modifies, in a significant and anti-competitive manner, Ameritech's position with respect to the ULS[1]-purchaser's role as access provider. Ameritech has now fully rescinded the commitment of its reply brief in ICC Docket No. 96-0404 to conform its ULS offering in the manner requested by entrants and required by the Illinois Commerce Commission ("Commission") and the Federal Communications Commission ("FCC"). Ameritech's ULS-*product* shares only its label with the ULS-*network element* to which entrants are entitled, and with each successive Ameritech filing any similarity grows ever more distant.

[1] "ULS" is the unbundled local switch.

Second, I address the confusion surrounding "common transport" demonstrated by the testimony of Ameritech witness O'Brien and, on a quite different plane, TCG witness Montgomery. There are three separate issues falling under the topic of "common" transport: (1) Ameritech's refusal to provide *any* form of common transport under Section 251 of the federal Telecommunications Act of 1996 ("Federal Act"), (2) Ameritech's further refusal to the *particular* form of common transport needed in combination with the ULS network element, and (3) a misunderstanding raised by TCG. What each of these issues has in common, however, is that Ameritech's position is singularly designed to strategically disadvantage its competitors and should be rejected.

Third, I respond to Ameritech's defense of its ULS proposed rates, in particular its proposal to impose a usage-sensitive component when all available evidence supports a per-line rate structure. The ULS network element (properly designed) places the entrant alongside Ameritech within the end-office with the same ability to access *all* of its features and functions as Ameritech. The price that the ULS entrant pays for its share of the switch should parallel the manner in which Ameritech incurs the cost, that is, on a per-line basis.

Fourth, I analyze Ameritech's request to include so-called "residual costs" -- which are more accurately described as unexplained revenue requirement -- in the price of unbundled network elements. My earlier testimony and that of many others explained why network element prices should not be inflated by Ameritech's undefined "residual". Ameritech's rebuttal testimony does nothing to lift the cloud of uncertainty. The mere existence of unexplained residual revenues is not sufficient to legitimize imposing these revenues as costs on rivals. In this one area, I disagree with Staff. The residual has no place in the price of network elements.

Finally, I address a series of issues involving non-recurring charges, including: (1) Ameritech's proposal to impose unjustified non-recurring charges ("NRC") when network element combinations are ordered, (2) Staff's preliminary assessment of Ameritech's proposed billing establishing charge, and (3) the appropriate treatment of the one-time costs incurred by Ameritech to fulfill its obligations under the Federal Act. The competitive role of NRC as a barrier to entry makes it particularly important that these charges be kept at a minimum.

Unbundled Local Switching and Access Charges

Q. What are the fundamental issues concerning unbundled local switching and access charges?

A. There are two principal issues. The first involves Ameritech's proposal to exclude functionality (trunk ports) from the unbundled local switching network element so that it may retain its access monopoly. The second concerns Ameritech's desire to assess access charges (the RIC and CCLC)[2] on interexchange carriers when originating or terminating traffic to the ULS-purchasers and users. Both of these positions are inconsistent with the ULS network element described in the Commission's and FCC's orders and must be rejected.

Q. How does Mr. O'Brien's rebuttal testimony seek to maintain Ameritech's access monopoly?

A. Ameritech began this proceeding with a position that recognized the ULS-purchaser as the provider of *originating* access service.[3] With respect to

[2] "RIC" is the residual interconnection charge and "CCLC" is the carrier common line charge.

[3] Although Ameritech recognized the ULS-purchaser as the provider of originating access, it nevertheless proposed to retain most of the interstate access revenue (i.e., the CCLC and 75% of the RIC). Ameritech has offered nothing new with respect to its claim on these revenues (even where it admits it is not providing the service) and I refer the Hearing Examiner to my prior testimony.

terminating access service, however, Ameritech had asserted that the provider of terminating access service (i.e., local switching and the loop) depended upon the transport decision of the interexchange carrier.

Ameritech also maintained this position throughout ICC Docket No. 96-0404, where the Commission is investigating Ameritech's compliance with Section 271 of the Federal Act. In ICC Docket No. 96-0404, however, Ameritech ultimately conceded that the ULS-based carrier is the provider of *both* originating and terminating access service:

> Several of the IXCs continue to complain that they are not being given the opportunity to charge for terminating access. (AT&T Br., pp. 49-50; CompTel Br., pp. 25-29). *This is no longer an issue. Ameritech Illinois has agreed to conform its treatment of originating and terminating access to provide IXCs with the opportunity they seek.*[4]

In my direct testimony I referenced this concession, but warned that until Ameritech honored its commitment with specific tariff language, its promise in ICC Docket No. 94-0404 was not enough. Mr. O'Brien's rebuttal testimony, unfortunately, proves this point. Ameritech now argues that it will remain the access provider to the ULS-based carrier's customers anytime an interexchange carrier obtains what Ameritech claims is "switched access service" from Ameritech.[5]

Q. **What does Ameritech mean when it uses the term "switched access service" in this way?**

[4] ICC Docket No. 96-0404, Reply Brief of Ameritech, February 19, 1997, page 60. *Emphasis added.*

[5] Ameritech Illinois Exhibit 2.2 (O'Brien Supplemental Rebuttal), pages 4-6.

A. Generally, switched access service has been defined as consisting of three components: the loop, the local switch, and the transport between the local switch and the long distance carrier's Point of Presence ("POP").[6] In the early 1990's, the FCC partially opened the switched access market to competition by permitting carriers to obtain the transport component from non-traditional sources. As a result, for several years transport and switching have been viewed as separate access components.

Q. Is Ameritech's view of "switched access service" consistent with this convention?

A. No. Ameritech claims that the trunk-ports on the local switch which connect to the IXC's transport circuits establish Ameritech as the provider of all switched access service. Under the scheme explained in Mr. O'Brien's rebuttal testimony, these trunk ports are "... part of the access service provided under tariff to the IXC, and is not part of the unbundled element provided to the ULS subscriber."[7]

Q. Is there any basis to Ameritech's position that these trunk ports make Ameritech the provider of switched access service to the ULS-purchaser's customers?

A. No. Ameritech's entire claim rests upon its unilateral assertion that these trunk ports, which connect the transport facilities chosen by the interexchange carrier,[8] are an exclusive feature of the switch that can be used only by Ameritech. This position, however, runs afoul of both the FCC's rules and this Commission's prior order.

[6] It is not unusual for an independent telephone company to provide the local loop and local switching, while Ameritech provides some or all of the transport.

[7] Ameritech Illinois Exhibit 2.2 (O'Brien Supplemental Rebuttal), page 10.

[8] Interexchange carriers determine the transport arrangement to a particular end-office.

First, the purchaser of unbundled local switching obtains every feature, function and capability of the local switch.[9] There are no exceptions to this definition which permit Ameritech to reserve these trunk ports to its exclusive use as implied by Mr. O'Brien's testimony.

Second, the FCC made clear that the role of access provider was inextricably linked to the purchase of the ULS network element:

> . . . a carrier that purchases the unbundled local switching element to serve an end user effectively obtains *the exclusive right* to provide all features, functions, and capabilities of the switch, including switching for exchange access and local exchange service, for that end user.[10]

Third, *if* it were true (and it is not) that access trunk ports *are not* part of the ULS network element, then the ports must be network elements in their own right. If Ameritech can provide switched access service to every end-user served by an end-office, including end-users for which it is no longer the local telephone company, then others should be able to purchase an equivalent "trunk-port" network element and *offer* switched access as well.

Finally, Ameritech's view that these trunk ports are dedicated to it is directly contrary to the FCC's decision that trunk ports are a *shared* resource of the switch. In discussing the pricing of the ULS network element, the FCC stated:

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9 See CFR § 519.319 (c)(1) Local Switching Capability; See also ICC Docket Nos. 95-0458/0531 (Consol.), Order (June 26, 1996), (*"Wholesale/Network Elements Order"*), page 65.

10 Order on Reconsideration, FCC, CC Docket No. 96-98, Released September 27, 1996, paragraph 11.

> We conclude that a combination of a flat-rated charge for line ports, which are dedicated to a single new entrant, and either a flat-rate or per-minute usage charge for *the switching matrix and for trunk ports, which constitute shared facilities*, best reflects the way costs for unbundled local switching are incurred and is therefore reasonable.[11]

Although the FCC's pricing rules have been stayed, the FCC's authority to define the network element is not even on appeal. As the cited passage shows, the FCC has *defined* the ULS network element to include trunk ports as shared components of the switch. Ameritech cannot cite to any justification -- beyond its clear desire for the revenues -- that it is entitled to retain an access monopoly to its competitors' customers, including competitors that have entered the market obtaining local switching as a network element from Ameritech.

Q. **Why do you expect that Ameritech's proposal would result in Ameritech retaining an "access monopoly"?**

A. Because it is simply unreasonable to expect interexchange carriers to establish separate access transport networks just to access the customer base of new entrants -- each of whom will enter the market without a single customer.

Because the entrants begin with no calling volumes, initial traffic patterns would be volatile and unpredictable if isolated on separate trunk groups. This problem can be avoided, however, if IXCs use existing transport arrangements to reach all the end-users at an end-office. These transport circuits are sized to accommodate all the traffic from the end-office, and there is no need to resize these circuits as customers choose among ULS-based providers.

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[11] First Report and Order, FCC, CC Docket No. 96-98, Released August 8, 1996, paragraph 810 ("*First Report and Order*").

Moreover, under Ameritech's scheme, each interexchange carrier would need to install some mechanism to determine which terminating phone numbers are served by "Ameritech" compared to a ULS-based entrant to determine which trunk groups to route traffic. These systems do not today exist, and may not even be technically feasible. Staff witness Gasparin noted this concern in ICC Docket No. 96-0404 that either each IXC would need to establish a separate database to determine the destination routing of each call (an extremely unlikely proposition), or a more extensive number portability database would need to be created and quickly extended beyond Chicago.

Most importantly, *why* go to this expense, complication and potential for error? No reason other than to frustrate entry, protect Ameritech's access monopoly and, in the event of interLATA authority, enable Ameritech to dominate the full-service market.

Q. Are you aware of any interest in Ameritech's ULS-offering?

A. No. In this regard, I find Mr. O'Brien's claim[12] that Ameritech has structured its ULS offering to "accommodate" the perceived needs of smaller entrants disingenuous. There is a fundamentally different motivation driving the ULS *product* crafted by Ameritech's management than the ULS *network element* to which entrants are entitled.

The ULS *network element* is founded in the Federal Act intended to promote entry. This goal is accomplished in large part by providing entrants a right to access and use Ameritech's network to offer services. This right is essentially unconditional, subject only to the requirements that access be technically feasible and that the entrant compensate Ameritech at cost-based rates. Under this framework, the adequacy of a network element is judged from the perspective of

[12] Ameritech Exhibit 2.2 (O'Brien Supplemental Rebuttal), page 9.

the entrant -- does it satisfy the entrant's requirements for the services that the entrant intends to offer?

Ameritech's ULS *product* represents the antithesis of the framework established by the Federal Act. The product essentially defines the terms, conditions and prices under which Ameritech's management has decided to tolerate competition. The Federal Act, however, is not based on a feudal model where Ameritech defines the commercial opportunities of serf-entrants. Ameritech simply does not have the right to determine how entrants will compete, yet this is precisely the motivation behind its ULS product.[13]

Q. **Has Ameritech adopted other positions intended to discourage ULS-based entry?**

A. Yes. Not only does Ameritech seek to *define* the ULS in a manner which would assure its continued domination of the access market, it also asserts a right to the vast majority of access revenues anytime a carrier offers service using the ULS. Specifically, Mr. O'Brien claims that Ameritech is entitled to the interstate CCLC and (at least) 75% of the RIC revenues.

Q. **What is Mr. O'Brien's explanation for Ameritech's claim to these access revenues?**

A. The policy rationale offered by Mr. O'Brien strives to cloak these revenues in the public interest:

[13] A more accurate term for Ameritech's ULS would be an "anti-product". Even within Ameritech, products are intended (presumably) to satisfy customer needs, but no such pretense applies to its ULS. The ULS is intended to frustrate potential customers, with success being measured by the absence, not satisfaction, of demand.

> Both the CCLC and RIC charges contain historic toll subsidies which go towards the cost of local service provisioning and which permit particularly residential access lines to be priced lower than they would otherwise be, especially in high cost areas.[14]

There are at least three flaws with this claim. First, Mr. O'Brien offers no proof that Ameritech's residential services are priced below cost, or that access charges provide the subsidy. In fact, Mr. O'Brien's own discussion on this point ends far weaker than it begins. Although Mr. O'Brien first argues the RIC and CCLC provide *subsidies*, he quickly backs-off this claim to the more modest observation that these revenues permit Ameritech to price its residential services "... lower than they otherwise would be ..."[15]

Second, in an environment where public policy is striving to establish a competitive residential local services market, Mr. O'Brien's statement is equivalent to a request for the Commission to guarantee Ameritech an advantage in the market. If Ameritech *does* use RIC and CCLC revenues to reduce residential rates -- a claim which Ameritech conveniently makes but never shows -- then it is vital that Ameritech *not* retain a monopoly on these revenues or it will continue to monopolize the residential market.

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[14] Ameritech Exhibit 2.1 (O'Brien Rebuttal), page 4.

[15] Mr. O'Brien later contradicts even this weaker position by claiming that the RIC "... recovers tandem switching costs that were deliberately omitted from the tandem switching rate elements..." Ameritech Exhibit 2.1 (O'Brien Rebuttal), page 6. This assertion is as groundless as Mr. O'Brien's earlier claim that the RIC provides a public-policy subsidy to Ameritech's residential rates. The interstate RIC was introduced to guarantee Ameritech a revenue-neutral restructuring of its interstate transport rates, a restructuring which included the introduction of a tandem-switching rate element. This tandem switching rate, however, was not set below *cost*; rather, the FCC established the initial rates below an accounting calculation that it labeled the tandem-switching *revenue requirement*. Evidence supplied by Ameritech during the Commission's review of the intrastate transport restructure demonstrated that Ameritech's tandem-switching rate exceeded its long run service incremental cost ("LRSIC") cost.

Third, Mr. O'Brien's statement can easily be rewritten to state that RIC and CCLC revenues "permit Ameritech's profits to be higher than they otherwise would be." It is completely inconsistent with the fundamental intent of the Federal Act to protect the most non-cost-based charges in Ameritech's rate structure from competition. These are precisely the type of charges/revenues that competitive pressure is intended to remove from consumer rates.

Q. **What is the "legal" basis to Ameritech's claim on these access charges?**

A. As explained in my direct testimony,[16] the FCC's rules had contained a transitional plan which *would have* permitted Ameritech to assess these charges no later than June 30, 1997. This provision, however, has since been stayed. Ameritech argues that because of the stay, Ameritech is entitled to 100% of the RIC revenues, not only 75% as permitted by the FCC transition plan.[17]

Like Mr. O'Brien, I am not a lawyer, but law is generally founded on logic and Ameritech's position clearly is not. The FCC recognized that *unless* it adopted a transition plan, Ameritech (and other incumbent LECs) were entitled to *zero* access charges. In the section of its *First Report and Order* where it adopted its transition plan, the FCC noted:

> . . . the 1996 Act permits carriers that purchase access to unbundled network elements from incumbent LECs to use those elements to provide telecommunications services, including the origination and termination of interstate calls. *Without further action on our part*, section 251 would allow entrants to use those unbundled network facilities to provide access services to customers they win from incumbent LECs without having to pay access charges to the incumbent LECs.[18]

[16] WorldCom Exhibit 1.1 (Gillan Direct), pages 19-21.

[17] Ameritech Exhibit 2.1 (O'Brien Rebuttal), page 5.

[18] *First Report and Order*, paragraph 717.

The stay effectively eliminates the FCC's "further action" and restores the environment required by the Federal Act. Ameritech has no basis to claim that the stay entitles it to 100% of the access charges, only the reverse can be true. Ameritech has no entitlement to *any* of the access charges under the Federal Act and the FCC's implementing regulations.

Unfortunately, at this point, the above arguments are largely academic. The FCC's transition plan expires in two months and Ameritech has already accomplished through intransigence the desired result: At no time since this Commission first required unbundled switching or the FCC's rules became effective has Ameritech permitted a carrier to become an access provider, nor is there any evidence that this will change before the FCC's (stayed) transition plan expires (June 30, 1997). Nevertheless, the Commission should make clear that Ameritech's positions are groundless so that Ameritech will finally move forward with implementation.

Q. **Has the Commission made clear that Ameritech is not entitled to an access monopoly?**

A. Yes. From the beginning, the Commission has made clear that an entrant providing service using the ULS network element would become, for its end-users, the provider of exchange access service. This issue was thoroughly debated in the Commission's initial proceeding[19] and more recently in ICC Docket No. 94-0404. There, the Hearing Examiner's findings repeated the Commission's policy:

> Ameritech is simply not entitled to continue to collect interstate access charges since it is not providing access to the end user through unbundled local switching. Such collection directly

[19] *Whole/Network Elements Order.*

> contradicts our Wholesale/Platform Order (*Wholesale/Network Elements Order)* in ICC Docket No. 95-0458.[20]

There is an important difference between ICC Docket No. 94-0404 and this docket, however, which emphasizes just how difficult it will be to establish a competitive local market over Ameritech's objection. ICC Docket No. 94-0404 addresses whether Ameritech has complied with requirements necessary to obtain interLATA authority. But this proceeding is Ameritech's *compliance* filing to the Commission's *Wholesale/Network Elements Order*. This is the proceeding where Ameritech is supposed to be ***implementing*** the Commission's order, not *relitigating* its rejected positions.

The Commission should not ignore the implication of the Hearing Examiner's finding that Ameritech's position "directly contradicts" the Commission's order. Illinois is the cradle of unbundled local switching. It was this Commission's historic decision and the insight of its Staff that provided important foundation to the Federal Act and the FCC's rules. Yet, through Ameritech's intransigence, Illinois is likely to become one of the last states in the nation where the ULS becomes a reality. The Commission's order in this proceeding should make clear that it will no longer tolerate Illinois trailing the nation in the implementation of its own initiatives -- in other words, Ameritech's next "compliance" filing must be its last.

Common Transport

Q. Please identify the basic issues with respect to "common transport".

A. There are actually three issues that have been raised by parties under the label of "common transport".

[20] Hearing Examiner's Proposed Order, ICC Docket No. 96-0404, page 41.

First, there is Ameritech's refusal to provide *any* form of common transport, including the traditional configuration between a tandem switch and end-office, as a network element (or combination thereof). Second, entrants that use the ULS network element require a *particular* form of common transport for the transport and termination of local traffic. Finally, TCG witness Montgomery appears to misunderstand the common transport issue and raises a concern in his rebuttal testimony which does not actually apply.

Q. **Why does Ameritech contend that it is not required to offer "common transport"?**

A. The source of Ameritech's refusal to offer common transport stems from its unique interpretation of the term "shared transport" in the FCC's order. Although Ameritech has represented to the Commission that the FCC's order is silent with respect to its obligation to provide common transport, the FCC order uses common transport and shared transport as interchangeable, and certainly recognizes common transport as a network element:[21]

> We adopt the concept of unbundled elements as physical facilities of the network, together with the features, functions, and capabilities associated with those facilities. Carriers requesting access to unbundled elements within the incumbent LEC's network seek in effect to purchase the right to obtain exclusive access to an entire element, or some feature, function or capability of that

[21] For instance, in its Initial Brief in ICC Docket No. 96-0404, Ameritech claimed:

> The fact that there is *no mention* of "common transport" *in any portion* of the First Report and Order which defines network elements may be explained on the basis that the term "common transport," which is the same as switched transport, is generally recognized as a service.

> Ameritech Initial Brief, February 4, 1997, page 97. *Emphasis added.*

> element. For some elements, especially the loop, the requesting carrier will purchase exclusive access to the element for a specific period, such as on a monthly basis. *Carriers seeking <u>other elements, especially shared facilities such as common transport,</u> are essentially purchasing access to a functionality of the incumbent's facilities on a minute-by-minute basis.*[22]

To the extent that there is ambiguity in the FCC's order, it is only how to address common transport where tandem switching is not involved -- i.e., in configurations such as the platform which use circuits that directly connect the ULS end office to other offices. The fundamental obligation to provide common transport as a network element, however, is clear.

Q. What complication is introduced by the availability of unbundled local switching?

A. Common transport occurs when circuits carry the traffic of more than one carrier, an event which involves switching at both ends. Before the advent of unbundled local switching, the only place where transport could be "common" was between the tandem and the end-office.[23] The introduction of unbundled local switching, however, means that common transport is now possible between *end-offices*, with or without using the tandem. Carriers that purchase unbundled local switching now have the need for a common transport option to transport and terminate their local traffic to other end-offices.

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22 *First Report and Order*, paragraph 258. Emphasis and underlining added.

23 Consequently, the FCC frequently described shared/common transport between the end-office and the tandem. For instance, the FCC states *(First Report and Order*, Paragraph 440):

> We require incumbent LECs to provide unbundled access to shared transmission facilities between end offices and the tandem switch.

Q. Does the FCC order lay a foundation that requires a common transport option for local transport and termination in combination with the ULS?

A. Yes. As I described in earlier testimony, this transport option automatically follows from a number of FCC rule provisions. These include the definition of the ULS to include all features and functions, including functions integral to call routing. Because the ULS provides its purchaser a right to use the switch's call routing instructions, it must also include the right to use the network to which they point. Second, as noted earlier, the FCC defined the ULS to include trunk ports as a shared resource of the switch, no different than the switching matrix itself. Just as some trunk ports are used to connect to interexchange access facilities, others connect to interoffice facilities for the transport of local calls. Furthermore, as a general matter, Ameritech must provide access to its network or terms that are equivalent to its own use.[24] Each of these arguments has been described in more detail in earlier testimony.

Q. Are other RBOCs preparing a common transport option for ULS-based entrants for the transport and termination of local calls?

A. Yes. To my knowledge, at least five of the other six RBOCs offer a common transport option in combination with unbundled local switching: Pacific Bell, Southwestern Bell, Bell Atlantic, Bell South, and NYNEX. The NYNEX Statement of Generally Available Terms ("SGAT") is the most succinct:

> 5.3.4 Unbundled Common Transport
> This network element allows a TC access to Unbundled Common transmission facilities, routing on the same basis that the Telephone Company routes and delivers its' own traffic.[25]

[24] §CFR 53.311(b)

[25] NYNEX SGAT Excerpt is attached as Schedule 1.

Q. **Is Ameritech's so-called "shared transport" alternative acceptable?**

A. No. This arrangement is nothing more than an attempt by Ameritech to reserve for itself only the scale economies of an inherited monopoly by denying ULS-based entrants the same access to its interoffice network for the transport and termination of their local calls that Ameritech provides itself. Of course, requiring Ameritech to share its scale economies lies at the heart of the Federal Act. As the FCC concluded:

> Congress addressed these problems [economic entry barriers] in the 1996 Act by mandating that the most significant economic impediments to efficient entry into the monopolized local market must be removed. The incumbent LECs have economies of density, connectivity, and scale; traditionally, these have been viewed as creating a natural monopoly. As we pointed out in our NPRM, the local competition provisions of the Federal Act require that these economies be shared with entrants.[26]

Ameritech's position on the common transport requested by entrants strikes at the central premise of the Federal Act that Ameritech may not use its starting position as the incumbent monopoly to perpetuate its market dominance.

Q. **Does Ameritech's rebuttal testimony provide any new arguments supporting its unique position?**

A. No. Ameritech's position is that common transport in *any* form is not a network element and, therefore, it will neither provide the conventional form clearly required by FCC order (i.e., transport between an end office and a tandem), nor the particular form appropriate to the ULS-configuration. Significantly, I am unaware of a single RBOC that shares Ameritech's peculiar interpretation of

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[26] *First Report and Order*, paragraph 10.

"shared transport" which underlies its refusal provide any type of common transport, and at least four RBOCs recognize the need to offer the specific common transport arrangement unique to the ULS.

As noted earlier, this same issue has been fully briefed in ICC Docket No. 94-0404. There, the Hearing Examiner's Proposed Order concluded:

> We find Ameritech's position on shared transport is inconsistent with the common understanding of shared transport. The Commission is of the opinion that shared/common transport is a network element required to be unbundled to satisfy the requirements of Section 251(c)(3).[27]

This finding is the correct one. The Commission should require that Ameritech include a common transport network option for the transport and termination of local calls in combination with the ULS and adopt the rate levels recommended in my rebuttal testimony.

Q. **What "common transport" issue is raised by the rebuttal testimony of Mr. Montgomery?**

A. Mr. Montgomery's reply testimony expresses the concern that purchasers of the common transport network element might not pay the RIC charge.[28] No carrier, however, has made that request. The RIC is applied by Ameritech whenever it is the provider of the local switching component of switched access service, irrespective of the transport method used to reach the end-office.[29] All carriers are

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[27] ICC Docket No. 96-0404, Hearing Examiner's Proposed Order, page 36.

[28] See Reply Testimony of W.P. Montgomery, page 14.

[29] As explained earlier, of course, Ameritech should not apply a RIC charge where it is not the access provider, such as when a carrier is serving its end-users using unbundled local switching.

treated in the same manner as TCG -- that is, they all will pay the access provider (i.e., the end-users' local company) a RIC charge -- and the concern raised in Mr. Montgomery's testimony is not an issue.

Unbundled Local Switching Rates

Q. **What are the fundamental issues involving the pricing of the unbundled local switching network element?**

A. There are two basic issues. The first question involves the appropriate *rate structure*. The second issue involves the appropriate *rate level.*

Q. **Please describe the rate structure issue.**

The rate structure issue is straight-forward: Should the ULS network element be priced on a per-line basis, or using a combination of per-line and usage rates. Ameritech has proposed a combination of rates that it has calculated using the Switching Cost Information System ("SCIS"). My rebuttal testimony discussed why SCIS may not be appropriate to determining the cost of the ULS network element and that a per-line rate structure may more closely reflect how the costs of the ULS network element are actually incurred.

Q. **Why may SCIS be an inappropriate tool for costing the ULS network element?**

A. The central issue goes to the definition of the ULS network element. In essence, SCIS is intended to estimate what *portion* of a manufacturer's switch price should be attributed to the various switch functions used by individual services. The purpose of SCIS is to assist the LEC in determining the "cost" of the many retail products that use the switch. The ULS network element, however, is the purchase of *all* the functionality of the switch, a question far simpler than the question that SCIS attempts to address.

SCIS is a complex (and proprietary) model that tries to subdivide a manufacture's composite price into smaller functional components. In a sense, SCIS tries to determine *why* a manufacturer charges a particular price for a switch. In fact, SCIS is considered validated when it reasonably predicts the price the manufacturer would actually charge.[30]

After reviewing Ameritech's rebuttal testimony and obtaining contracts from its principle switch vendors, two conclusions are clear. First, SCIS is not necessarily relevant to determining the cost of the ULS network element. Second, Ameritech's testimony confirms that SCIS overstates the usage-cost of local switching and produces results intended to support Ameritech's pricing objectives, not its underlying cost.

Q. **Why do you say that SCIS may not be necessary?**

A. Because, quite simply, there is no need to use an elaborate model to "explain" the individual factors which affect the manufacturer's price when it is the *composite* price that is relevant to the cost of the ULS network element. Just as Ameritech pays the manufacturer a price for a complete set of features and functions on the switch, the entrant should pay Ameritech a similarly structured price for its claim on that same set of features and functions. There is no need to engage in a quixotic search for the hypothetical cost of indivisible switching functions where the relevant question -- what is the actual cost of *all* the functions -- is known with exactness.

[30] In this sense, SCIS is somewhat like using the National Weather Service to predict *yesterday's* weather.

Q. How are Ameritech's contracts with its vendors structured?

A. The primary basis used by manufacturers to charge Ameritech for its switches is a price per-line. For this charge, Ameritech obtains a switch that conforms to its specifications in terms of features, functions and capacity. The ULS purchaser obtains access to this same set of features, functions and capabilities for each line of capacity that it purchases. There is no reason to go beyond the obvious -- that is, to establish a ULS network element charge that parallels Ameritech's cost of local switching, using as the rating basis (i.e., a per-line charge) the basis used in Ameritech's contracts with its vendors.

Q. Why are you even more certain that Ameritech's SCIS results cannot be relied upon now that you have reviewed its rebuttal testimony?

A. My direct testimony explained to the Commission that SCIS is deliberately designed to allocate costs to different services based on usage. This usage-bias is founded on the assumption that new switches are installed due to *processor-exhaust*. By assuming that switches exhaust the processor, SCIS can then assume that a number of otherwise fixed costs are "caused" by usage.

Second, I noted that even under SCIS's logic, usage-costs are driven by *busy hour* usage, and not usage more generally. As a result, any cost/minute output from SCIS is questionable because (1) the fundamental assumption that costs are usage-driven is suspect and, (2) in any event, the only accurate cost calculation would apply to busy hour usage.[31]

Q. Did Ameritech rebut these points?

[31] As explained later, converting the cost of busy-hour usage to a per minute charge is a *pricing* judgment.

A. No, to the contrary, the testimony of Ameritech witness Palmer confirms my conclusion that Ameritech's SCIS analysis should be viewed with extreme skepticism. As to the first point, Mr. Palmer's entire defense of SCIS' processor-exhaust assumption is the following undocumented claim:

> Although the Ameritech Illinois cost model reflects the theoretical forward-looking network design discussed in the previous answer, in a mature network like that of Ameritech Illinois, most new switch deployments occur to relieve processor capacity problems in existing switches.[32]

This assertion, however, is completely contradicted by the input values used in the SCIS model itself. Two input values in SCIS are relevant: the years until each switch is replaced and the number of years until each switches' processor exhausts. In addition, the model reports the processor utilization at the time of switch replacement.

Q. Do the SCIS input values validate Mr. Palmer's unsubstantiated claim that most of Ameritech's switches will be replaced because of processor-exhaust?

A. No. The following summarizes the average value of these inputs used in Ameritech's SCIS runs. This table shows that Ameritech modeled a very different view of processor exhaust than the one claimed by Mr. Palmer. Evidently, when *running* SCIS, Ameritech believes that its switches will be replaced far sooner than the processor will exhaust; when *defending* SCIS, Mr. Palmer believes the opposite.

[32] Ameritech Exhibit 3.1 (Palmer Rebuttal), page 43.

Parameter	SCIS Value
Average Number of Years Before Switch Replacement	14.02
Average Number of Years Before Processor Exhaust	23.75
Average Processor Utilization at Switch Replacement	61.7%

On average, Ameritech's SCIS analysis shows that it expects its switches to be replaced nearly a decade before their processors exhaust. Schedule 2 provides the input values for each of the 175 switches included in the SCIS analysis. This schedule shows that only one of the 175 switches is expected to exhaust in the same year as replacement, and only a handful will be replaced anytime near their projected processor-exhaust date.

Q. What conclusion can be drawn from the conflict between Mr. Palmer's testimony and these SCIS values?

A. Obviously, both can't be correct. If Mr. Palmer is correct, then Ameritech's depreciation lives are wrong. The SCIS inputs show that it switches need not be replaced for more than 20 years and the depreciation lives should be adjusted accordingly.

Alternatively, Mr. Palmer's claim is groundless, modern switches are line-limited, and the characterization that substantial local switching costs are *usage-driven* is inaccurate[33]. Either way, Ameritech's cost studies cannot be used to estimate the cost of local switching without modification.

[33] A recent deposition of a witness for PacBell confirmed that only a small fraction of that RBOCs local switches have ever been replaced due to processor exhaust. Deposition of Richard Scholl, ONAD proceeding before the California Public Utilities Commission, February 11, 1997, TR. 77.